

Teacher Lesson Plan

Module 9—Earned Income Credit

Time Frame

One to three class periods

Curriculum Area(s)

- Technology
- Civics/Government
- Family and Consumer Sciences
- History/Social Studies
- Economics

Purpose

To help students understand the earned income credit

Objectives

Students will be able to

- distinguish between a tax deduction and a tax credit.
- explain how the earned income credit affects the tax liability.
- apply the requirements to claim the earned income credit.
- describe the factors that determine the amount of the earned income credit.

Materials

Online

[Student Lesson—Earned Income Credit](#)

[Tax Tutorial—Earned Income Credit](#)

[Simulation 9A—Claiming the Earned Income Credit as a Single Taxpayer](#)

[Simulation 9B—Claiming the Earned Income Credit as a Married Taxpayer](#)

[Assessment—Earned Income Credit](#)

[Assessment Solutions—Earned Income Credit](#)

Print (PDF)

[Fact Sheet—Earned Income Credit](#)

[Teacher Lesson Plan—Earned Income Credit](#)

Tax Forms

[Form 1040, U.S. Individual Income Tax Return](#)

[Schedule EIC, Earned Income Credit](#)

Background

A tax deduction reduces the income subject to tax. A tax credit is a dollar-for-dollar reduction of the tax. The earned income credit is a tax credit for people who have earned income and an adjusted gross income under a specified limit. Many rules apply to the earned income credit, including a limit on the amount of investment income. The earned income credit is determined by the taxpayer's adjusted gross income (or, if greater, earned income) and the number of qualifying children, if any. Eligible taxpayers can receive the earned income credit even if their tax is zero.

Key Terms

adjusted gross income—Total income reduced by certain amounts, such as for an IRA or student loan interest

earned income—Includes wages, salaries, tips, and self-employment earnings.

Earned Income Credit—A credit that can be paid to low-income workers, even if no income tax was withheld from the workers' pay. To receive the credit, a taxpayer must file a tax return.

investment income—Includes taxable and tax-exempt interest, dividends, capital gains distributions, and rental income.

qualifying child—A qualifying child for the earned income credit meets the relationship, age, and residency tests. A taxpayer who claims the earned income credit cannot be the qualifying child of another person. A person can be claimed as a qualifying child on one tax return only.

tax credit—A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

tax deduction—A part of a person's or business's expenses that reduces income subject to tax.

Opening the Lesson

Hand out Fact Sheet—Earned Income Credit. Use the following questions to prompt students to share what they know about the credit:

- Would you rather have a tax deduction or a tax credit for the same amount? **A tax credit; a tax deduction reduces the amount subject to tax, and a tax credit is a dollar-for-dollar reduction of the tax.**
- Why is there a tax credit for low-income workers? **The earned income credit encourages taxpayers to be employed; it supplements the income of workers who are not highly paid.**

Then, explain that this lesson covers the requirements to claim the earned income credit.

Note: Refer students who may want to work independently on this module to Student Lesson—Earned Income Credit.

Developing the Lesson

Direct students to Tax Tutorial—Earned Income Credit, and explain that this tax tutorial focuses on the earned income credit. Tell students they will learn (or review) the difference between a tax deduction and a tax credit and that they will learn about the requirements for claiming the earned income credit. Inform students that the earned income credit depends on the taxpayer's adjusted gross income (or, if greater, earned income) and the number of qualifying children, if any. The earned income credit reduces the tax. Eligible taxpayers can receive the earned income credit even if their tax is zero. Inform students that they will have an opportunity to see how the tax credit is reported on tax forms.

Online Activity

Direct students to Simulation 9A—Claiming the Earned Income Credit as a Single Taxpayer. Explain that they will use the information to determine whether Seth Wiggins, a single taxpayer without a qualifying child, is eligible for the earned income credit. Students will then help the Seth prepare Form 1040EZ.

Then, direct students to Simulation 9B—Claiming the Earned Income Credit as a Married Taxpayer. Explain that they will use the information to determine whether Stephen and April Beach, married taxpayers with a qualifying child, are eligible for the earned income credit. Students will then help the Beachs prepare Form 1040A.

Concluding the Lesson

After the students have completed Tax Tutorial—Earned Income Credit, Simulation 9A—Claiming the Earned Income Credit as a Single Taxpayer, and Simulation 9B—Claiming the Earned Income Credit as a Married Taxpayer, ask them whether they have any questions about the earned income credit. To ensure that they understand the material, ask the following questions:

- At the same adjusted gross income level, which taxpayer has the higher earned income credit: a single worker with no qualifying children or a married couple with two qualifying children? **The earned income credit is larger for taxpayers with qualifying children.**
- Can a taxpayer with no earned income claim the earned income credit? **No; a taxpayer must have earned income to receive the earned income credit.**

Assessment

As a final review, summarize the major lesson points. Remind students that the earned income credit is a tax credit for certain people who work and have adjusted gross incomes under a specified limit. Many rules apply to the earned income credit. The earned income credit is determined by the taxpayer's adjusted gross income (or, if greater, earned income) and the number of qualifying children, if any. Taxpayers can receive the earned income credit even if their tax is zero. When students are comfortable with the material, have them complete Assessment—Earned Income Credit.